## COMPANY RESULTS

# Sunway Construction (SCGB MK)

2Q25: Earnings Beat Expectations, But Fairly Priced In

**Suncon's 2Q25 performance beats consensus expectation, lifted by better construction progress billing and higher-margin data centre projects. The group's improving net cash of RM1.24b also yields higher interest income and lower financial costs. Overall, Suncon's robust orderbook pipeline continues to support record-high earnings in 2025-27, but capital returns for investors are modest after resilient share price (+26% ytd). Maintain HOLD with a higher target price of RM6.27.**

### 2Q25 RESULTS

| Year to 31 Dec (RMm) | 2Q25 | qoq % chg | yoy % chg | 1H25 | yoy % chg | Comments |
|---|---|---|---|---|---|---|
| **Revenue** | **1,476.9** | ***5.5*** | ***126.8*** | **2,877.4** | ***129.1*** | Improved progress billing |
| - Construction | 1,433.5 | *4.6* | *139.9* | 2,803.4 | *145.7* | |
| - Precast Concrete | 43.4 | *41.9* | *(19.0)* | 74.0 | *(35.5)* | High base in 2Q24 |
| **Operating profit** | **114.6** | ***4.6*** | ***117.6*** | **224.1** | ***111.9*** | |
| - Construction | 115.1 | *5.6* | *147.2* | 224.1 | *141.1* | |
| - Precast Concrete | (0.6) | *(201.7)* | *(109.0)* | (0.0) | *(100.1)* | |
| **Pre-tax Profit** | 122.6 | *8.3* | *144.2* | 235.8 | *156.7* | Revenue & margin improved |
| **PATAMI** | **83.9** | ***10.8*** | ***115.8*** | **159.6** | ***123.9*** | |
| **Core PATAMI** | **94.1** | ***14.4*** | ***153.0*** | **176.3** | ***153.6*** | |
| **Margins** | **%** | **+/-ppt** | **+/-ppt** | **%** | **+/-ppt** | |
| EBIT: | *7.8* | *-0.1* | *-0.3* | *7.8* | *-0.6* | |
| - Construction | *8.0* | *0.1* | *0.2* | *8.0* | *-0.2* | Accelerated newer projects |
| - Precast Concrete | *(1.3)* | *-3.0* | *-12.6* | *(0.0)* | *-11.2* | Slower replenishment |
| PBT | *8.3* | *0.2* | *0.6* | *8.2* | *0.9* | |
| Core PATMI | *6.4* | *0.5* | *0.7* | *6.1* | *0.6* | |

*Source: Sunway Construction, UOB Kay Hian*

### RESULTS

- **Impressive 2Q25, beats our and consensus expectations.** Sunway Construction's (Suncon) 2Q25 core net profit came in at RM94.1m (+14% qoq, +153% yoy), backed by a higher revenue of RM1.48b (+6% qoq, +127% yoy). 1H25 earnings made up 57% and 58% of our and consensus full-year estimates.
- **Declared 7.25 sen second interim dividend.** Notably, this is much higher than 2Q24's 3.5 sen. 1H25 dividend of 12.5 sen (1H24: 3.5 sen) implies a payout ratio of 91% and a yield of 2.1%.

### KEY FINANCIALS

| Year to 31 Dec (RMm) | 2023 | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|---|
| Net turnover | 2,671 | 3,522 | 5,847 | 5,837 | 6,207 |
| EBITDA | 245 | 279 | 500 | 515 | 535 |
| Operating profit | 224 | 262 | 480 | 493 | 512 |
| Net profit (rep./act.) | 145 | 187 | 356 | 368 | 387 |
| Net profit (adj.) | 170 | 167 | 356 | 368 | 387 |
| EPS (sen) | 13.2 | 13.0 | 27.6 | 28.5 | 30.0 |
| PE (x) | 31.2 | 31.8 | 21.2 | 20.5 | 19.5 |
| P/B (x) | 6.5 | 6.1 | 7.4 | 6.4 | 5.7 |
| EV/EBITDA (x) | 20.4 | 17.9 | 14.6 | 14.2 | 13.7 |
| Dividend yield (%) | 1.5 | 2.1 | 3.9 | 4.1 | 4.2 |
| Net margin (%) | 5.4 | 5.3 | 6.1 | 6.3 | 6.2 |
| Net debt/(cash) to equity (%) | 66.1 | (32.5) | (41.7) | (55.0) | (67.7) |
| Interest cover (x) | 11.4 | n.a. | 30.8 | 35.8 | 58.3 |
| ROE (%) | 18.6 | 22.0 | 37.5 | 33.6 | 31.0 |
| Consensus net profit | - | - | 308.2 | 323.4 | 368.0 |
| UOBKH/Consensus (x) | - | - | 1.16 | 1.14 | 1.05 |

*Source: Sunway Construction, Bloomberg, UOB Kay Hian*

## HOLD

(Maintained)

| | |
|---|---|
| Share Price | RM5.85 |
| Target Price | RM6.27 |
| Upside | +7.2% |
| *(Previous TP* | *RM5.55)* |

### COMPANY DESCRIPTION

A leading construction company in Malaysia.

### STOCK DATA

| | |
|---|---|
| GICS sector | Industrials |
| Bloomberg ticker: | SCGB MK |
| Shares issued (m): | 1,312.0 |
| Market cap (RMm): | 7,675.4 |
| Market cap (US$m): | 1,816.4 |
| 3-mth avg daily t'over (US$m): | 9.6 |

**Price Performance (%)**

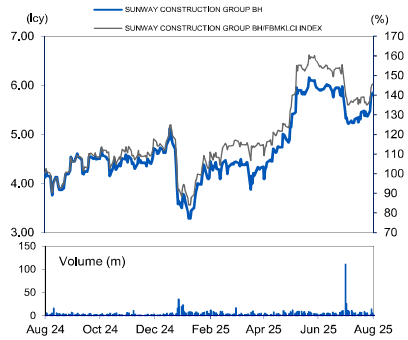
52-week high/low RM6.27/RM3.26

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| 6.6 | 13.6 | 42.3 | 41.0 | 26.3 |

| **Major Shareholders** | **%** |
|---|---|
| Sunway Holdings Sdn Bhd | 53.6 |
| Sungei Way Corp Sdn Bhd | 9.9 |
| Employees Provident Fund Board | 4.3 |

| | |
|---|---|
| FY25 NAV/Share (RM) | 0.79 |
| FY25 Net Debt/Share (RM) | 0.33 |

### PRICE CHART




*Source: Bloomberg*

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- **Construction segment: Significant earnings improvement as DC progress billing accelerates.** The construction division's operating profit (EBIT) surged to RM115m (+6% qoq, +147% yoy) on a higher revenue of RM1.43b (+5% qoq, +140% yoy) in 2Q25. Stellar revenue and EBIT growth were largely driven by accelerated progress for data centre (DC) projects (Sedenak DC progress billing achieved 80% on upsized RM4b contract value; 1Q25: 59%). Meanwhile, EBIT was also lifted by an overall higher business volume and a slight margin expansion from more lucrative DC works (+0.1ppt qoq).

## STOCK IMPACT

- **MACC issue closing chapters.** In July, one of Suncon's project managers was detained by the Malaysian Anti-Corruption Commission (MACC) for alleged corruption in the handling of a data centre project. Nevertheless, Suncon received an official written confirmation on 18 August from MACC that its investigations focus solely on the project manager, and there will be no corporate liability to Suncon and its subsidiaries. This allays earlier concerns that Suncon is directly liable for the MACC investigations.

- **Multi-year earnings growth anchored on consistent orderbook replenishment.** Suncon reported solid new job wins of RM3.8b ytd after securing: a) two DC packages from a US client (conversion of early contractor involvement (ECI) DC packages in Klang Valley, b) a RM1.5b contract for Rapid Transit System Transport Oriented Development (RTS TOD) at Bukit Chagar in March, and c) a RM393m data centre contract for K2 Strategic Infrastructure (K2). The current outstanding orderbook of around RM6.7b and tenderbook of RM14.8b will continue to drive the group to record-high earnings levels throughout 2025-26.

- **Entering era of DC-powered growth.** DC works make up 45% of Suncon's existing orderbook and will continue to be a key earnings growth driver. Of the current RM14.8b tenderbook, 75-80% are DC-related. Overall, we assess that Suncon is in a good position to win several DC bids within 2025. This will lift the group's overall margins given a DC's shorter construction period and better profit margins. More importantly, Suncon also guided that all existing DC projects are progressing without delays, allaying earlier concerns on the withdrawal of DC tenders and potential halts of existing DC projects following the US' AI chip restrictions.

- **Manageable impact from various input cost accelerations.** To recap, Suncon earlier highlighted that the higher sales and service tax (from 6% to 8%) and the implementation of diesel subsidy rationalisation (from 2Q24 onwards) may result in marginally higher building material prices and negatively impact the group's earnings margin in 2025-26. Meanwhile, the recent monthly minimum wage revision to RM1,700 (from RM1,500) beginning Feb 25 and foreign workers' 2% EPF contribution will also lift opex, but Suncon is likely able to pass through this labour cost increase for new projects secured. Overall, we assess that the negative earnings impact is within 3-5%.

## EARNINGS REVISION/RISK

- **Raised our 2025-27 earnings forecasts by 10-12%** to factor in the higher margins and progress billings from existing construction projects.

## VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM6.27 (from RM5.55).** Our target price implies 22x 2026F PE (+1SD above five-year mean of 18x), which we deem fair given Suncon's record-high orderbook and tenderbook which anchor multi-year growth.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

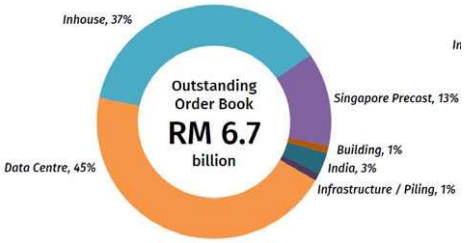
| |
|---|
| • **Environmental** |
| - Mitigate emissions, biodiversity impact, waste disposal and pollution. |
| • **Social** |
| - Work with local authorities and communities to ensure projects' success. |
| • **Governance** |
| - Independent directors (four out of seven) comprise the majority of the board. |

## OUTSTANDING ORDERBOOK AS OF END-2Q25

| Projects | (RMm) |
|---|---|
| JHB1X0 Data Centre | 818 |
| K2 Phase 2 Data Centre | 398 |
| RTS Link Package 1B & 5 | 48 |
| Daiso Warehouse | 108 |
| PSR -MNC | 548 |
| ECI & Work Order - MNC | 5 |
| General DC Contractor Work - MNC | 1,150 |
| India Highways | 182 |
| Solar Projects | 21 |
| Others | 84 |
| **Total External (A)** | **3,362** |
| RTS TOD | 1,451 |
| Sunway Square Superstructure+VO | 274 |
| SW Flora | 56 |
| SW Ipoh Mall | 608 |
| Others | 100 |
| **Total Internal (B)** | **2,489** |
| **Precast Concrete (C)** | **867** |
| **Grand Total (A+B+C)** | **6,718** |

*Source: Suncon*

## ORDERBOOK




*Source: Suncon*

## SEGMENTAL FORECASTS

| (RMm) | 2024 | 2025F | 2026F |
|---|---|---|---|
| **Revenue** | **3,522** | **5,847** | **5,837** |
| - Construction | 3,327 | 5,488 | 5,513 |
| - Precast Concrete | 195 | 359 | 324 |
| **Operating profit** | **262** | **480** | **493** |
| - Construction | 240 | 440 | 457 |
| - Precast Concrete | 22 | 40 | 36 |
| **Orderbook replenishment assumptions** | | | |
| - Construction | 4,200 | 6,000 | 6,000 |
| - Precast Concrete | 200 | 300 | 300 |

*Source: Suncon, UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Dec (RMm) | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|
| **Net turnover** | **3,522** | **5,847** | **5,837** | **6,207** |
| EBITDA | 279 | 500 | 515 | 535 |
| Deprec. & amort. | 17 | 20 | 22 | 22 |
| EBIT | 262 | 480 | 493 | 512 |
| Associate contributions | 0 | 0 | 0 | 0 |
| Net interest income/(expense) | 11 | (16) | (14) | (9) |
| **Pre-tax profit** | **273** | **464** | **479** | **503** |
| Tax | (76) | (102) | (105) | (111) |
| Minorities | (10) | (5) | (6) | (6) |
| **Net profit** | 187 | 356 | 368 | 387 |
| Net profit (adj.) | **167** | **356** | **368** | **387** |

## BALANCE SHEET

| Year to 31 Dec (RMm) | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|
| Fixed assets | 85 | 108 | 115 | 124 |
| Other LT assets | 588 | 589 | 589 | 590 |
| Cash/ST investment | 1,016 | 1,107 | 1,275 | 1,480 |
| Other current assets | 1,907 | 3,068 | 2,982 | 3,086 |
| **Total assets** | **3,596** | **4,871** | **4,961** | **5,280** |
| ST debt | 731 | 681 | 631 | 581 |
| Other current liabilities | 1,926 | 3,168 | 3,153 | 3,360 |
| LT debt | 0 | 0 | 0 | 0 |
| Other LT liabilities | 1 | 1 | 1 | 1 |
| Shareholders' equity | 878 | 1,022 | 1,171 | 1,328 |
| Minority interest | 61 | 66 | 72 | 78 |
| **Total liabilities & equity** | **3,596** | **4,938** | **5,027** | **5,347** |

## CASH FLOW

| Year to 31 Dec (RMm) | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|
| **Operating** | **717** | **462** | **467** | **517** |
| Pre-tax profit | 273 | 464 | 479 | 503 |
| Tax | (76) | (102) | (105) | (111) |
| Deprec. & amort. | 17 | 20 | 22 | 22 |
| Associates | (0) | (0) | (0) | (0) |
| Working capital changes | 535 | 80 | 72 | 102 |
| Other operating cashflows | 31 | 0 | 0 | 0 |
| **Investing** | **139** | **(29)** | **(29)** | **(31)** |
| Capex (growth) | (9) | (29) | (29) | (31) |
| Proceeds from sale of assets | 0 | 225 | 225 | 226 |
| Others | (90) | (225) | (225) | (226) |
| **Financing** | **(303)** | **(262)** | **(269)** | **(280)** |
| Dividend payments | (116) | (212) | (219) | (230) |
| Proceeds from borrowings | (167) | (50) | (50) | (50) |
| Others/interest paid | (20) | 0 | 0 | 0 |
| **Net cash inflow (outflow)** | 552 | 170 | 168 | 205 |
| **Beginning cash & cash equivalent** | 384 | 936 | 1,107 | 1,275 |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **936** | **1,107** | **1,275** | **1,480** |

## KEY METRICS

| Year to 31 Dec (%) | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 7.9 | 8.6 | 8.8 | 8.6 |
| Pre-tax margin | 7.8 | 7.9 | 8.2 | 8.1 |
| Net margin | 5.3 | 6.1 | 6.3 | 6.2 |
| ROA | 5.6 | 8.4 | 7.5 | 7.6 |
| ROE | 22.0 | 37.5 | 33.6 | 31.0 |
| | | | | |
| **Growth** | | | | |
| Turnover | 31.8 | 66.0 | (0.2) | 6.3 |
| EBITDA | 13.9 | 79.0 | 2.9 | 3.9 |
| Pre-tax profit | 44.7 | 70.0 | 3.2 | 5.1 |
| Net profit | 28.8 | 90.7 | 3.2 | 5.1 |
| Net profit (adj.) | (1.7) | 113.1 | 3.2 | 5.1 |
| EPS | (1.7) | 113.1 | 3.2 | 5.1 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 43.8 | 38.5 | 33.7 | 29.2 |
| Debt to equity | 83.2 | 66.6 | 53.8 | 43.7 |
| Net debt/(cash) to equity | (32.5) | (41.7) | (55.0) | (67.7) |
| Interest cover (x) | n.a. | 30.8 | 35.8 | 58.3 |

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